

SECTION-BY-SECTION SUMMARY OF THE SAVE SOCIAL SECURITY ACT

Section 1. Short Title and Table of Contents.

This section of the legislation provides for a short title and a table of contents.

Section 2. Establishment of Personal Social Security Savings Program.

This section amends the Social Security Act to establish the Personal Social Security Savings Program. Specifically, section 2 allows any qualifying individual (a worker aged 50 and under) to make an irrevocable election to participate in the program established under this section.

New section 254 of the Social Security Act requires the Secretary of the Treasury to make quarterly contributions on behalf of the qualifying individual in an amount equal to 5% of the first \$10,000 of earnings each year, and 2.5% of earnings above that up to the maximum Social Security taxable income each year.

New section 255 of the Social Security Act establishes a Tier I Investment Fund and allows the qualifying individual to allocate funds under one or more of four investment options. Specifically, the Tier I investment options are: (1) 90 percent common stock and 10 percent fixed income securities investment option; (2) 70 percent common stock and 30 percent fixed income securities investment option; (3) 50 percent common stock and 50 percent fixed income securities investment option; and (4) a lifecycle investment option which increases the percentage invested in fixed income securities from 10 percent to 50 percent as the cohort approaches retirement age. The lifecycle option is designated as the default option if the individual does not specify otherwise.

New section 256 of the Social Security Act establishes a Tier II Investment Fund and allows the qualifying individual to transfer funds to one or more Tier II investment options after reaching an election threshold of \$25,000. Any transfer to one or more Tier II investment options may be in lieu of or in addition to investments in Tier I investment options. Specifically, certified entities may offer the participant a choice of one or more portfolios of each of three investment options, which are: (1) a less conservative investment option with at least 85 percent but not more than 95 percent invested in common stock, and the remainder invested in fixed income securities; (2) a moderate investment option with at least 65 percent but less than 75 percent invested in common stock, and the remainder invested in fixed income securities; and (3) a more conservative investment option with at least 45 percent but less than 55 percent invested in common stock, and the remainder invested in fixed income securities. In order to offer an investment option, all eligible entities will need to be certified by the Personal Social Security Savings Board. Eligible entities must follow certain recordkeeping and disclosure requirements described under this section. Additionally, all Tier II options have to be approved by the Board based on specified quality factors. Payment of any administrative expenses of the Board will be paid out of net earnings under Tier I or Tier II investment options.

New section 257 of the Social Security Act allows the participant to take distributions from the amounts credited to their personal account after they reach retirement age. All participants have the option to purchase an annuity offered by the Annuity Issuance Authority, cash out their accounts entirely, or a combination of both. In case of death, and before the amounts contained in the Tier I or Tier II investment options are fully distributed, the remaining amounts will be distributed to designated beneficiaries or to the participant's estate.

New section 258 of the Social Security Act will guarantee that each participant will receive a benefit that is at least equal to their full Social Security benefit that would have been payable had the individual never chosen to participate in the program. The Secretary of the Treasury is required to make a monthly guarantee benefit payment in an amount equal to the normal monthly benefit under current law *minus* the sum of the total monthly benefit payable from personal account distributions and the reduced monthly actual benefit from Social Security.

New section 259 of the Social Security Act establishes the Personal Social Security Savings Board composed of five members appointed by the President with the advice and consent of the Senate. The Board shall be responsible for administering and issuing regulations to administer the program established under section 6, and for establishing the policies for the investment and management of the Tier I and Tier II investment options.

New section 260 of the Social Security Act creates the position of Executive Director appointed by the majority of the Personal Social Security Savings Board to carry out the policies of the Board and to administer, invest, and manage the Tier I Investment Fund in accordance with the policies established by the Board.

Section 3. Monthly Insurance Benefits in Connection with Participants in the Personal Social Security Savings Program.

Section 3 of the legislation provides for personal saving account funds to replace a portion of full scheduled Social Security benefits payable to participants by a percentage of up to 50 percent. Specifically, the replacement percentage for an individual will equal 50 percent multiplied by the ratio of (a) the present value of actual contributions made to a personal account to (b) the value of the contributions which would have been made with respect to the participant if the program established under section 2 had always been available and the individual had always participated.

Section 4. Tax Treatment of Accounts.

Distributions from personal accounts are subject to the personal income tax in the same manner as current Social Security benefits under this section.

Section 5. Reimbursement of Spending Reduction Account from Savings Resulting from Personal Social Security Savings Program.

Section 5 of this legislation establishes the process for which the Treasury is repaid when the Trust Funds reach a reimbursement year. Specifically, once the Trust Funds are restored to a level when they will be able to pay 100 percent of the total amount of benefits (reimbursement

year), any funds above that amount will go to fund (1) present year personal account contributions, and (2) present year guarantee costs. After present year contributions have been funded, funds will go to reimburse (1) prior year personal account contributions, and (2) prior year guarantee costs.

Section 6. Funding of Personal Social Security Savings Program from Credits for Reductions in Federal Spending.

Section 6 of this legislation establishes a spending reduction account in the Treasury which requires that funds expended to make contributions to personal accounts and to any guarantees originate from this account. Specifically, section 6 requires the Secretary of Treasury to credit the spending reduction account with the amount of savings to the Treasury for each fiscal year derived from legislation providing for the reduction or termination of Federal programs which are in effect on the date of enactment. If the legislation provides for savings over multiple fiscal years, the Secretary will credit the account for each such fiscal year of the amount of savings properly attributable for such fiscal year. The Office of Management and Budget shall report to Congress annually the amount determined by the Board to provide for timely payment of amounts from the account and recommendations for reductions or terminations of Federal programs. In any case where there is an insufficiency in the account, the payments made from the account will be reduced on a pro rata basis in relation to the projected amounts in the account, but be restored in any case where there is an excess balance after all payments from the account have been made.

Section 7. Interim Financing of the Social Security Trust Funds.

In any situation in which the Social Security Trust Funds do not have sufficient assets necessary to pay full scheduled benefits, the Managing Trustee may borrow amounts from the Treasury. These loans must be paid back, together with accumulated interest, by the Managing Trustee once the assets of the Trust Funds are determined to be sufficient.